



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

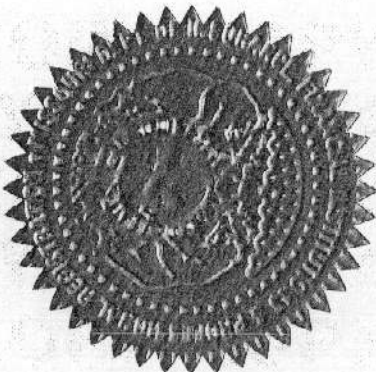
RE: Examination Report of Vision Service Plan Insurance Company as of December 31, 2006

ORDER

After full consideration and review of the report of the financial examination of Vision Service Plan Insurance Company for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Vision Service Plan Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this May 2, 2008.

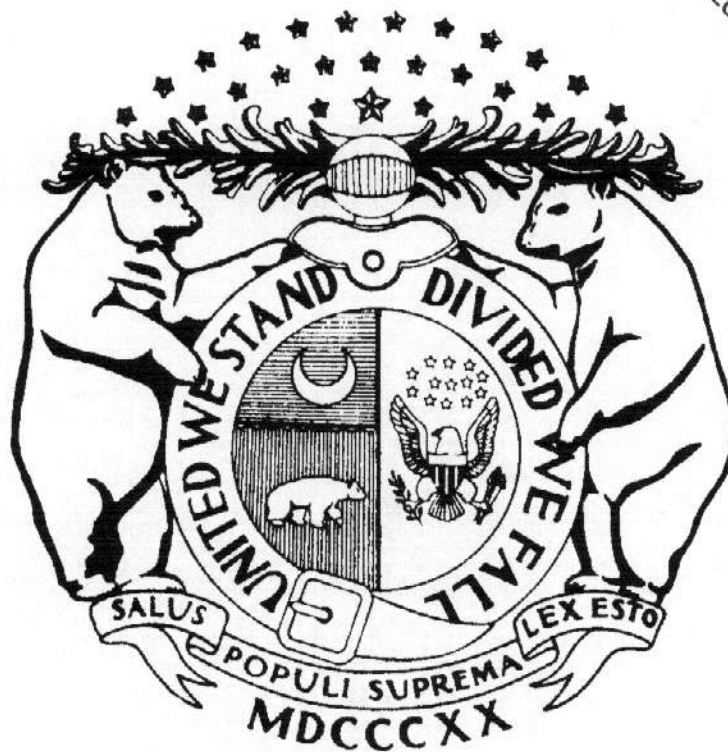


DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
ASSOCIATION FINANCIAL EXAMINATION
**VISION SERVICE PLAN INSURANCE
COMPANY**

AS OF
DECEMBER 31, 2006

FILED
MAY 12 2008
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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Rancho Cordova, California
March 26, 2008

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, (E) Financial Condition Committee, NAIC

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Vision Service Plan Insurance Company

hereinafter referred to as such, as the "Company", or as "VSPIC-MO". Its administrative office is located at 3333 Quality Drive, Rancho Cordova, California 95670, telephone number (916) 851-5000. This examination began on November 26, 2007 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Vision Service Plan Insurance Company was made as of December 31, 2003 and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covers the period from January 1, 2004, through December 31, 2006 and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (Missouri DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditors, PricewaterhouseCoopers LLP, of Sacramento, California, for their audit period covering January 1, 2006 through December 31, 2006. This information included, but was not limited to, narrative descriptions and testing of internal controls, investment account confirmations and account analysis.

The examination was conducted concurrently with the examinations of several other affiliated companies within the Vision Service Plan Group (VSP Group) which were performed by various other state insurance departments. Although each of the affiliated companies within the VSP Group has their own individual blocks of business, the affiliated companies share the same operating systems, employees and management. Workpapers, documents and other information was provided by the various other state insurance departments. We relied upon some of this information during our examination of VSPIC-MO. This information included, but was not limited to, fraud risk assessments and testing of underlying claims data.

Comments-Previous Examination

Listed below are the comments and recommendations of the previous examination report, dated as of December 31, 2003 and the subsequent response or action taken by the Company.

History-Corporate Records

Comment: The minutes of the Company's Board of Directors' meetings failed to reflect the annual appointment of the Company's independent actuary. In addition, the minutes failed to reflect the review and approval of the merger which occurred between VSPIC-MO and VSP Central Region. The Company should ensure the Board of Directors approve the independent actuary on an annual basis and discuss and approve significant transactions and corporate events. These discussions and approvals should be reflected in the meeting minutes.

Company Response: The Company will comply with the directive to ensure that Board approval is obtained at least annually for the independent actuary's appointment and for other significant transactions and corporate events.

Current Finding: The annual appointment of the independent actuary and approval of other significant corporate events were documented in the Board of Directors' meeting minutes for the current examination period.

Intercompany Transactions

Comment: The Company failed to file the merger with VSP-Central Region with the Missouri DIFP as required by Section 382.195 RSMo. (Prohibited transactions, exceptions). The Company is directed to institute procedures to ensure any future transactions or agreements requiring prior approval from, or notice to, the Missouri DIFP are filed.

Company Response: The Company will comply with the directive to ensure that it files future transactions requiring prior approval of, or notice to, the Missouri DIFP. Although the self-funded group vision administrative service plan contracts to which the dissolved VSP-Central Region entity was formerly a party were, by definition, not the subject of an insurance agreement, the Company takes note of the directive and will comply with it.

Current Finding: There were no transactions or agreements during the current examination period which would have required prior approval from the Missouri DIFP.

Annual Statement Blank

Comment: Although the Company's sole line of business is group vision health coverage, the Company files the Property and Casualty Annual Statement and Quarterly Statement blanks. It appears that filing the Health Quarterly and Annual Statement blanks would better facilitate the disclosure of health oriented information regarding the Company's business. Therefore, it is recommended that the Company consider filing the Health blank for future filing periods.

Company Response: In 2001, all affiliated companies were changed to the Health blank except for VSPIC-MO per the direction of the Missouri DIFP. We will begin using the Health blank for VSPIC-MO effective with the quarter ending March 31, 2005.

Current Finding: The Company is currently utilizing the Health blank for its filing and reporting.

Custodial Agreement

Comment: The Company's custodial agreement with Bank of America did not contain all of the safeguard provisions specified in Part 1, Section IV of the NAIC Financial Condition Examiners Handbook. The Company should amend or restate its custodial agreement so that it contains all of the NAIC specified safeguard provisions. Until such time the agreement is brought into compliance with NAIC guidelines, it should be disclosed in General Interrogatory 23.02 of the Annual Statement for custodial agreements not in compliance with NAIC guidelines.

Company Response: The Missouri DIFP's recommended changes to the custodial agreement were submitted to Bank of America. Bank of America's legal department is in the process of amending the agreement to incorporate these changes.

Current Finding: The custodial agreement with Bank of America has been amended to contain the NAIC safeguard provisions.

HISTORY

General

Vision Service Plan Insurance Company was incorporated and commenced business on June 1, 1987, as a joint stock casualty insurance company, under Chapter 379 RSMo (Insurance other than life). The Company was originally wholly-owned by California Vision Service (now known as Vision Service Plan). On April 1, 1993, Vision Service Plan (VSP) transferred all its shares of VSPIC-MO to a wholly-owned subsidiary, Altair Holding Company.

Capital Stock

VSPIC-MO is one hundred percent owned by Altair Holding Company. As of December 31, 2006, the Company had authority to issue 10,000 shares of \$150 par value common stock. All 10,000 shares were issued and outstanding for a balance of \$1.5 million in the Company's capital stock account at December 31, 2006.

Dividends

No dividends were declared or paid during the examination period.

Management and Control

The management of the Company is vested in a Board of Directors that are appointed by the sole shareholder. The Company's Articles of Incorporation specify that the number of directors shall be no less than nine, but no more than fifteen. The directors elected and serving as of December 31, 2006, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
Cheryl Ann Johnson Granite Bay, California	Vice President-Health Care Services Vision Service Plan (California)
Gary N. Brooks Loomis, California	Senior Vice President-Operations Vision Service Plan (California)
Patricia Cochran Elk Grove, California	Vice President-Finance, Chief Financial Officer Vision Service Plan (California)

Mary Ann Cavanagh Carmichael, California	Vice President-Client Services Vision Service Plan (California)
Thomas A. Fessler Granite Bay, California	General Counsel Vision Service Plan (California)
James R. Lynch Gold River, California	President Vision Service Plan (California)
L. Donald Price Fair Oaks, California	Vice President-Provider Relations Vision Service Plan (California)
Richard W. Steere Sacramento, California	Vice President-Sales Vision Service Plan (California)
Susan Young Kansas City, Missouri	Account Executive Vision Service Plan (California)

Pursuant to its Bylaws, the officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary, an Assistant Secretary and a Treasurer. Officers elected and serving as of December 31, 2006, were as follows:

<u>Name</u>	<u>Position</u>
James R. Lynch	President
Gary N. Brooks	Vice President/Secretary
Patricia Cochran	Treasurer/Assistant Secretary

The Board of Directors of VSPIC-MO does not have any committees per se. The VSPIC-MO Board of Directors utilizes the committees of the ultimate parent, VSP. As of December 31, 2006, VSP had the following committees:

Business Committee	Health Services Committee
Finance Committee	Provider Relations Committee
Governance Committee	Quality Care Committee

Conflict of Interest

The Company has procedures that require all officers and directors to complete a conflict of interest statement each year. Signed conflict of interest statements were reviewed for the examination period, and no significant conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company. No amendments were made to either the Articles of Incorporation or Bylaws during the period under examination.

The minutes of the Company's Board of Directors' meetings and the Sole Shareholder's meetings were reviewed for the period under examination and, in general, appear to properly reflect and approve the corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, mergers or major corporate events noted for the period under examination.

Surplus Debentures

There were no surplus debentures issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

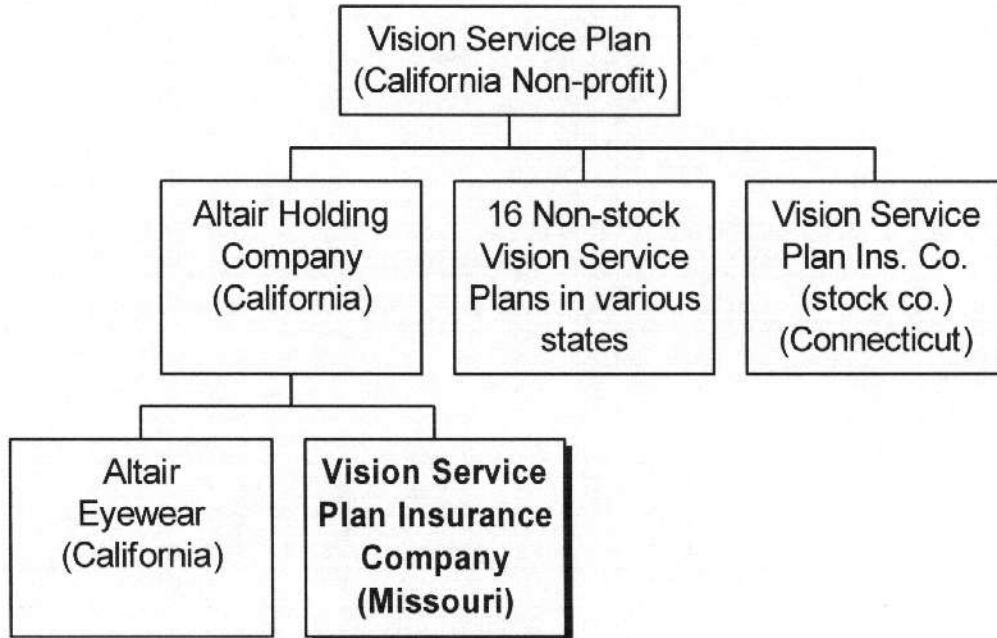
VSPIC-MO is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). Altair Holding Company (AHC), a holding company incorporated in California, owns 100% of the outstanding capital stock of VSPIC-MO. AHC also owns 100% of the outstanding stock of Altair Eyewear, a California private-label frame company selling exclusively to VSP doctors. AHC is, in turn, wholly owned by Vision Service Plan, a non-profit California corporation and the ultimate parent of the holding company system. As a non-profit corporation, VSP has members rather than stockholders. The members of VSP are its participating California member optometrists.

VSP controls seventeen other vision service plans in various states, all of which are non-stock, except for Vision Service Plan Insurance Company of Connecticut, a stock company. The consolidated group operates vision care plans throughout the United States under the federally registered service marks "Vision Service Plan" or "VSP."

Insurance Holding Company System Registration Statements were filed by VSPIC-MO with the State of Missouri for each of the years in the examination period with each statement maintaining that VSP is the ultimate controlling entity.

Organizational Chart

The following organizational chart depicts the holding company system of VSP as of December 31, 2006:



Intercompany Transactions

VSPIC-MO has entered into the following intercompany agreements:

1. Type: Administration and Marketing Agreement
 Parties: Vision Service Plan and VSPIC-MO
 Effective: February 1, 1998 (amended June 22, 1998)
 Terms: VSP provides all administrative and marketing services to VSPIC-MO. In return for these services, VSPIC-MO reimburses VSP on a monthly basis for the services provided. The amount paid is computed by taking VSP's expenses (less certain VSP specific items), dividing that amount by the total number of claims paid by the corporation, and multiplying the result by the number of claims specific to VSPIC-MO.
2. Type: Tax Allocation Agreement
 Parties: Altair Holding Company (AHC), Altair Eyewear, and VSPIC-MO
 Effective: January 1, 1995

Terms: The agreement provides that the companies will file consolidated federal and state income tax returns. Each company's tax liability is the percentage of the total tax liability that its taxable income bears to the total taxable income. However, the agreement stipulates that the tax liability for the individual companies will not be more than if the company had filed a separate return. All settlements under the agreement are required to be made within ten days of notice from AHC of payment/receipt of funds to/from the taxing authority.

The amounts paid to parent and affiliates during the period under examination were as follows:

	2006	2005	2004
Admin. And Marketing Agreement			
Paid to VSP	\$11,255,077	\$9,889,233	\$10,556,140
Tax Allocation Agreement			
Paid to AHC	3,046,000	3,078,000	1,794,000
Total	\$14,301,077	\$12,967,233	\$12,350,140

FIDELITY BOND AND OTHER INSURANCE

Vision Service Plan Insurance Company is a named insured, along with other VSP subsidiaries, on a Financial Institution Bond purchased by the ultimate parent, Vision Service Plan. The Bond has an aggregate liability of \$4 million, with a single loss liability limit of \$2 million and a single loss deductible of \$75,000 for forgery, alteration, and computer systems. The fidelity coverage provided by this policy complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

VSPIC-MO is also a named insured on the following policies purchased by VSP: Commercial General Liability, Umbrella and Excess Liability policies, Managed Care Professional Liability (Errors and Omissions) and Directors and Officers Liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Vision Service Plan Insurance Company has no direct employees. The employees who perform the Company's operations are employed by, and receive benefits from, the ultimate parent, VSP pursuant to the Administration and Marketing Agreement described in the Intercompany Transactions section of this report.

VSP offers a variety of benefits to employees which include, but are not limited to, paid vacations and sick leave, medical, dental and vision coverage, group life insurance, accidental death and dismemberment insurance, short-term and long-term disability insurance, and a defined benefit contribution 401(k) retirement plan. VSPIC-MO has no additional liability for any of the benefits listed above.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP as of December 31, 2006, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Securities deposits). The funds on deposit as of December 31, 2006, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$2,400,000	\$2,373,480	\$2,469,359

Deposits with Other States

VSPIC-MO also has funds on deposit with the states of Georgia and New Mexico in which it is licensed. Those funds on deposit as of December 31, 2006, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Stmt Value</u>
Georgia	Money Market Fund	\$25,000	\$25,000	\$25,000
New Mexico	U.S. Treasury Note	<u>110,000</u>	<u>107,095</u>	<u>110,639</u>
Totals		<u>\$135,000</u>	<u>\$132,095</u>	<u>\$135,639</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

VSPIC-MO is licensed with the Missouri DIFP under Chapter 379 RSMo (Insurance other than life) to write accident and health insurance. As of December 31, 2006, the Company was also licensed in five other states: Florida, Georgia, Idaho, Maryland, and New Mexico. The amount of premium written in each state during 2006 as a percentage of total written premiums was as follows: Missouri, 40%; Georgia, 26%; Florida, 25% and New Mexico, 9%. No premiums were written in either Idaho or Maryland.

The Company specializes within the accident and health line, writing only group vision service insurance to subscriber groups on both a risk and self-funded basis. Subscriber groups which purchase coverage on a risk basis pay an agreed upon monthly premium based on total number of eligible members. Subscriber groups which elect self-funded programs reimburse the Company for benefits paid and pay an administrative fee. For 2006, premiums from risk basis plans provided 50% of total revenues generated with the remaining 50% of total revenues being generated from the administrative fees on self funded plans.

Pursuant to the Administration and Marketing Agreement, described in the Intercompany Transactions section of this report, all sales and marketing services are provided to the Company by its ultimate parent, VSP. VSP utilizes both in-house agents and independent brokers to market its products.

Policy Forms & Underwriting

Advertising & Sales Material

Treatment of Policyholders

The Missouri DIFP has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. The Company has not been examined for market conduct activity to date. A cursory review was made of several market conduct related areas during the examination, and no problems were noted.

REINSURANCE

VSPIC-MO does not participate in reinsurance in its normal course of business. During the period under examination, the Company did not assume or cede any reinsurance.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements were audited by the CPA firm, PricewaterhouseCoopers, LLP, of Sacramento, California for all years in the examination period.

Independent Actuary

Loss reserves of the Company were reviewed and certified by Frederick W. Kilbourne, FCAS, MAAA, of The Kilbourne Company of San Diego, California, for all years in the examination period.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2006. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements." (The failure of any column of numbers to add to its respective total is due to rounding or truncation).

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore they were communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

Analysis of Assets

	Ledger and Non- Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$ 32,373,618	\$ -	\$ 32,373,618
Common stocks	2,010,246	-	2,010,246
Cash, cash equivalents and short-term investments	25,923,279	-	25,923,279
Receivables for securities	6,755	-	6,755
Investment income due and accrued	693,754	-	693,754
Uncollected premiums and agents' balances	3,001,833	108,096	2,893,737
Amounts receivable relating to uninsured plans	6,040,920	183,637	5,857,283
Net deferred tax asset	141,125	-	141,125
Total Assets	\$ 70,191,530	\$ 291,733	\$ 69,899,797

Liabilities, Surplus and Other Funds

Claims unpaid	\$ 3,170,550
Unpaid claims adjustment expense	38,537
Premiums received in advance	84,901
General expenses due or accrued	316,497
Current federal and foreign income taxes	3,192,920
Amounts due to parent, subsidiaries and affiliates	1,418,463
Payable for securities	11,140
Liability for amounts held under uninsured plans	361,925
Aggregate write-ins for other liabilities:	
Taxes, licenses and fees	640,217
Escheatable checks	92,814
Total liabilities	9,327,964
Common capital stock	1,500,000
Unassigned funds (surplus)	59,071,833
Total Capital and Surplus	60,571,833
Total Liabilities and Capital and Surplus	\$ 69,899,797

Statement of Revenue and Expenses

Net premium income	\$ 60,763,404
Fee-for-service	1,626,683
Risk revenue	<u>2,122,868</u>
Total revenues	64,512,955
Hospital and Medical:	
Other professional services	<u>46,621,767</u>
Total hospital and medical	46,621,767
Claims adjustment expense	408,026
General administrative expenses	5,309,470
Increase in reserves for life and accident and health contracts	<u>(1,291,550)</u>
Total underwriting deductions	51,047,713
Net underwriting gain or (loss)	13,465,242
Net investment gains or (losses)	2,402,493
Net gain or (loss) from agents' or premium balances charged off	<u>(9,619)</u>
Net income or (loss) before income taxes	15,858,116
Federal income taxes incurred	<u>4,686,350</u>
Net income or (loss)	<u>\$ 11,171,766</u>

Capital and Surplus Account

Capital and surplus, December 31, 2005		\$ 50,226,980
Net income	\$ 11,171,766	
Change in unrealized capital gains	131,630	
Change in net deferred income tax	(799,451)	
Change in nonadmitted assets	<u>(159,092)</u>	
Net change in capital and surplus for the year		<u>10,344,853</u>
Capital and surplus, December 31, 2006		<u>\$ 60,571,833</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Vision Service Plan Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Barbara Bartlett, CFE, CPA and Angela Campbell, CFE, examiners for the Missouri Department of Insurance, Financial Institutions and professional Registration participated in this examination.

VERIFICATION

State of Missouri)
)
County of)

I, Mark Nance, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

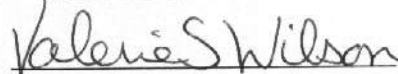


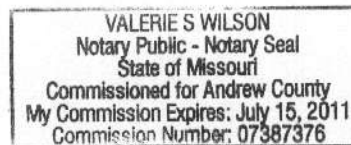
Mark Nance, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 25th day of March, 2008.

My commission expires:

July, 15 2011


Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in cursive script, reading "Vicki L. Denton", is written over a horizontal line.

Vicki L. Denton, CFE
Acting Audit Manager
Missouri Department of Insurance, Financial
Institutions and Professional Registration